ANNUAL Report 1994

Aaron Oil Corporation

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Aaron
Oil
Corporation

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Corporate Profile

Aaron Oil Corporation ("Aaron") is a growing Calgary based oil and gas company operating producing properties in Alberta, British Columbia and Saskatchewan. Aaron also is engaged in diamond exploration with extensive claim holdings in Saskatchewan and the Northwest Territories.

At the present time the Company is focusing on increasing its oil and gas production by developing and enhancing existing properties and acquiring additional producing properties as they become available.

Exploration of Aaron's Saskatchewan diamond holdings is currently being carried forward at no cost to the Company by a well funded diamond exploration company.

The Company's shares are traded on the Alberta Stock Exchange under the symbol AOC.

Annual and Special General Meeting of Shareholders

The Annual and Special General Meeting of Shareholders of Aaron Oil Corporation will be held:

Aquitaine Tower
Auditorium, 2nd Floor
540 - 5th Avenue S. W.
Calgary, Alberta T2P 0M2

Monday, May 15, 1995
1:00 p.m. - 3:00 p.m.

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Report to Shareholders

The year ended November 30, 1994 presented a major challenge to management. Early in the year approximately $3.6 million was raised from private placements of common and flow-through common shares and $650,000 was received from the sale of the Bulwark oil property. The Company's bank loan was paid off and, by March 1994, the Company had $2.2 million in current liquid assets. During the year $1.2 million was expended on diamond exploration and $2.3 million on oil and gas exploration and development.

DIAMONDS

Results of the diamond exploration were encouraging, confirming that substantial deposits of diamondiferous kimberlite underly Aaron's Fort a la Corne claims. However, as 1994 progressed it became clear that investor interest in Canadian diamond exploration companies was cooling. Results announced from several diamond projects in the Northwest Territories failed to live up to investors' expectation and a major sell off occurred in all diamond stocks including the Company's.

During the summer of 1994, Kensington Resources Ltd., attracted by the excellent prospects developed on Aaron's claims, approached Aaron and its joint venture partner, Rhonda Mining Corporation, with a proposal to carry forward the exploration program at its cost and thereby earn an interest in the Fort a la Corne project. In September 1994, agreements were signed granting Kensington the right to earn a fifty percent interest in the claims by expending $3,000,000 on exploration and issuing 1,000,000 shares of Kensington to Aaron and its joint venture partner.

Through these agreements the diamond exploration program initiated in 1992 will be carried forward undiminished but at no cost to Aaron. Kensington have announced a substantial drilling program at Fort a la Corne, designed to assess the diamond content of the remaining kimberlite targets, the best of which will be selected for bulk sampling. Dr. Peter Nixon of Leeds University, who guided our earlier program, will be continuing to provide his expertise as a consultant to Kensington. All of Aaron's diamond interests have been transferred to a wholly owned subsidiary, Kimmswick Diamonds Inc. ("Kimmswick").

OIL & GAS

The results of our 1994 oil and gas exploration and development program can only be described as disappointing. The stated goal of 1000 barrels of oil equivalent per day (BOEPD) was not achieved and the Company ended the year with production at approximately 400 BOEPD.

During the year management initiated a policy of aggressively pursuing potential mergers, however no suitable candidates emerged.

A review by the Board of Directors subsequent to the year end concluded that a new approach was required to restore the Company to dynamic growth. Administrative costs, which had risen to excessive levels, were targeted for severe cuts by reducing staff, surrendering leased office space and by turning over the management of the oil and gas assets to professional managers.

Early in 1995, the Board awarded Cord Oil & Gas Management Ltd. ("Cord) the contract to manage Aaron's oil and gas assets with a mandate to make recommendations to the Board for specific proposals for enhancing and adding to the Company's oil and gas asset base, utilizing its $2.5 million available line of credit.

CONTROL

In February 1994, Rhonda Mining Corporation purchased a 23% interest in the Company from the founder of Aaron. Subsequent to the year end, Rhonda has increased its interest to 27% through a private placement and open market purchases.

MANAGEMENT

A number of changes occurred in management during the year. Mr. Peter Kreutzer was appointed President on January 1, 1994. In February 1994, Mr. Russell Edwards, the founder of Aaron, resigned as Chairman of the Board and was replaced by Mr. Andrew Hyslop. Later in the year the Board of Directors accepted the resignations of Directors: Mr. Russell Edwards, Mr. Walter Nemanishen, and Dr. Richard Garnett. Mr. James Davis was appointed to the Board and also appointed President of Kimmswick. Late in the year Mr. Bernard Benning, Mr. Joe Couillard and Mr. John M. Alston were appointed to the Board. Effective January 1, 1995, Mr. Hyslop resigned as Chairman and was replaced by Mr. Alston. Subsequent to the year end, Mr. Alston succeeded Mr. Kreutzer as President and Chief Executive Officer and Mr. Thomas W. Whittingham was appointed to the Board succeeding Mr. Davis who also relinquished the position of President of Kimmswick, being replaced by Mr. Alston.

BUSINESS PLAN

The current downturn in the Canadian oil industry and the resultant restructurings are providing opportunities to acquire producing properties at attractive prices. Consequently, the Board, which now includes two geologists with substantial oil company management experience, will be focusing on evaluating prospective acquisitions recommended by the Cord management team.

To reflect the new, aggressive business plan, the Board is recommending that the Company be renamed Altmark Energy Inc. We expect to be able to report much improved results for 1995.

On behalf of the Board

"JOHN M. ALSTON"

Chairman, President and C.E.O.

Auditors' Report

To the Shareholders of Aaron Oil Corporation:

We have audited the consolidated balance sheets of Aaron Oil Corporation as at November 30, 1994 and 1993 and the consolidated statements of operations and retained earnings (deficit) and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at November 30, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Arthur Andersen & Co.
Chartered Accountants

Calgary, Alberta,
February 17, 1995

ASSETS *(Note 3)*

	1994	1993
CURRENT		
Cash	$ 307,082	$ —
Marketable securities	225,084	267,745
Accounts receivable	300,327	308,438
Prepaid expenses	—	44,938
Total current assets	832,493	621,121
PROPERTY AND EQUIPMENT *(Notes 2 and 6)*	5,814,733	3,870,996
	$ 6,647,226	$ 4,492,117

LIABILITIES AND SHAREHOLDERS' EQUITY

	1994	1993
CURRENT		
Bank overdraft	$ —	$ 14,796
Accounts payable *(Note 8)*	1,403,511	194,242
Total current liabilities	1,403,511	209,038
BANK LOAN *(Note 3)*	—	1,600,000
DEFERRED REVENUE	—	26,937
ACCUMULATED SITE RESTORATION	85,800	56,600
DEFERRED INCOME TAXES *(Note 7)*	—	98,500
	1,489,311	1,991,075
SHAREHOLDERS' EQUITY		
Share capital *(Note 4)*	5,192,892	2,068,442
Warrants *(Note 5)*	5,851	4,871
Retained earnings (Deficit)	(40,828)	427,729
	5,157,915	2,501,042
	$ 6,647,226	$ 4,492,117

APPROVED ON BEHALF OF THE BOARD:

"JOHN M. ALSTON"

Chairman, President and C.E.O.

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

for the years ended November 30, 1994 and 1993

	1994	1993
OPERATING INCOME		
Oil and gas gross revenues	**$ 1,946,744**	$ 1,870,565
Crown royalties	**(211,571)**	(173,859)
Freehold and overriding royalties	**(40,953)**	(38,294)
Oil and gas operating expenses	**(884,255)**	(822,802)
Interest income	**40,813**	—
	850,778	835,610
EXPENSES		
General and administrative	**822,947**	660,926
Depletion and depreciation	**433,829**	307,207
Interest	**20,898**	126,719
Write-down of marketable securities	**140,161**	—
	1,417,835	1,094,852
LOSS BEFORE DEFERRED INCOME TAX RECOVERY	**(567,057)**	(259,242)
DEFERRED INCOME TAX RECOVERY *(Note 7)*	**(98,500)**	(38,440)
LOSS	**(468,557)**	(220,802)
RETAINED EARNINGS, beginning of year	**427,729**	648,531
RETAINED EARNINGS (DEFICIT), end of year	**$ (40,828)**	$ 427,729
LOSS PER SHARE	**$ (0.04)**	$ (0.02)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

for the years ended November 30, 1994 and 1993

	1994	1993
OPERATING ACTIVITIES		
Loss	**$ (468,557)**	$ (220,802)
Depletion and depreciation	**433,829**	307,207
Decrease in deferred income taxes	**(98,500)**	(38,440)
(Increase) decrease in working capital, excluding cash, bank overdraft and current portion of bank loans	**1,304,979**	(312,606)
	1,171,751	(264,641)
FINANCING ACTIVITIES		
Issue of common shares, net of issuance costs	**3,124,450**	1,162,425
Issue of warrants	**980**	4,871
Decrease in bank loans	**(1,600,000)**	(77,897)
Decrease in deferred revenue	**(26,937)**	(30,474)
Utilization of share issue cost to reduce deferred income taxes	**—**	12,500
Decrease in deferred income taxes	**—**	(12,500)
	1,498,493	1,058,925
AVAILABLE FOR INVESTING ACTIVITIES	**2,670,244**	794,284
INVESTING ACTIVITIES Additions to property and equipment, net	**(2,348,366)**	(1,029,775)
(DECREASE) INCREASE IN CASH	**321,878**	(235,491)
CASH (BANK OVERDRAFT), beginning of year	**(14,796)**	220,695
CASH (BANK OVERDRAFT), end of year	**$ 307,082**	$ (14,796)

The accompanying notes are an integral part of these consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

On September 20, 1994, Aaron Oil Corporation ("the Corporation") transferred all of the mining assets to a wholly-owned subsidiary, Kimmswick Diamonds Inc. ("Kimmswick") which was incorporated during the year in consideration for 1,500,000 common shares of Kimmswick with a total value of $1,500,000.

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Kimmswick. All intercompany balances and transactions have been eliminated.

Oil and Gas Properties

The full cost method of accounting for oil and gas operations as prescribed in the Guideline on Full Cost Accounting in the Oil and Gas Industry issued by the Canadian Institute of Chartered Accountants is followed.

Under this method, all costs associated with the acquisition of, exploration for, and development of oil and gas reserves are capitalized. Proceeds from the disposition of properties will be applied as a reduction of the cost of the remaining assets, except when a significant disposition occurs, in which case a gain or loss on disposal is recorded. A significant disposition would cause a change of 20% or more in the depletion and depreciation rate.

Depletion and depreciation are calculated using the unit-of-production method which is based upon the year's production volumes after royalties in relation to total proved reserves volumes after royalties. Gas volumes are converted to equivalent oil volumes based upon relative energy content. The rate per equivalent barrel of oil is calculated using costs incurred to date plus an estimate of future costs to bring the proved reserves into production.

The Corporation provides for the estimated cost at current prices of abandoning oil and gas properties and restoring land associated with such properties based upon current environmental and other regulations. Such costs are being accumulated over the estimated lives of the properties using the unit-of-production method. The annual charge is recorded as depletion and depreciation expense, with the accumulated amount recorded as a long-term liability.

The Corporation calculates a 'cost ceiling' which limits the capitalized costs less

accumulated depletion, depreciation, site restoration costs and deferred income taxes to the sum of the following:

(i) The estimated undiscounted future net revenue derived from proved reserves net of site restoration costs, financing costs production related general and administrative costs and income taxes; and

(ii) Unproved properties at cost less impairment.

Future net revenue is calculated using oil and gas prices, costs, and the Income Tax and Alberta Royalty Credit legislation as at the year end date.

Mining Properties

Costs of acquisition and exploration of mineral properties are capitalized on an area of interest basis. Amortization of these costs will be on a unit-of-production basis, based on estimated proven reserves of minerals of the areas should such reserves be found. If an area of interest is abandoned or management has indicated that future development appears unlikely, the costs thereto will be charged to income.

Joint Venture Activities

The accounts reflect only the Corporation's proportionate interest in exploration and production activities conducted jointly with others.

Office Equipment

Office equipment is recorded at cost and depreciated on the declining balance method at 20% to 30% per annum.

Deferred Revenue

Prepayments for gas under take-or-pay contracts are recorded as deferred revenue until such time as the gas is delivered to the customer.

Flow-through Shares

Resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. The appropriate property and share capital accounts are reduced by the estimated amount of the income taxes related to the expenditures made during the period.

2. PROPERTY AND EQUIPMENT

	1994		1993	
	Cost	**Accumulated Depletion and Depreciation**	Cost	Accumulated Depletion and Depreciation
Oil and gas properties	**$ 5,639,154**	**$ 1,420,011**	$ 4,273,420	$ 1,039,911
Mining properties	**1,555,893**	**11,425**	614,896	8,796
Office equipment	**113,253**	**62,131**	71,618	40,231
	$ 7,308,300	**$ 1,493,567**	$ 4,959,934	$ 1,088,938
Net book value	**$ 5,814,733**		$ 3,870,996	

3. BANK LOAN

	1994	1993
Revolving term loan	**$ —**	$ 1,600,000

The maximum borrowing available under the revolving term loan is $2,500,000.

The loan is secured by demand notes, a debenture on certain oil and gas properties, a floating charge on all other assets of the Corporation, a general assignment of accounts receivable and a specific assignment of production revenues.

Loan interest is calculated on the daily outstanding principal amount at a rate of prime plus ¾ of 1% (1993-prime plus 1%) per annum.

4. SHARE CAPITAL

(a) Authorized

An unlimited number of first preferred shares, issuable in series.

An unlimited number of second preferred shares, issuable in series.
An unlimited number of common shares, without nominal or par value.

(b) Issued

	Common Shares	
	Number of Shares	Consideration
Balance, November 30, 1992	9,447,773	$ 893,517
Issued for services	127,500	62,058
Private placements	267,300	437,940
Issued under flow-through share agreements (net of tax of $475,715 and issue costs of $141,102)	807,137	575,552
Issued under stock option agreements	568,300	86,875
Utilization of share issue costs to reduce deferred income taxes	—	12,500
Balance, November 30, 1993	11,218,010	2,068,442
Issued for services	65,000	48,400
Private placements (net of issue costs of $250,864)	1,765,000	2,767,436
Issued under flow-through share agreements (net of tax of $324,885 and issue costs of $64,871)	353,000	236,014
Issued under stock option agreements	300,000	72,600
Balance, November 30, 1994	**13,701,010**	**$ 5,192,892**

(c) Escrowed Shares

All common shares issued to related parties which were subject to escrow provisions were release in 1994.

(d) Management Agreement

Common shares issued relative to a management agreement for services rendered (280,000 shares) were held in escrow and released annually in three equal amounts. As of November 30, 1994, all shares were earned.

(e) Consulting Agreement

A consulting agreement providing for compensation of 4,000 shares per month was terminated effective April 1, 1994. A total of 36,000 shares were earned and issued.

(f) Stock Options Outstanding

	Number of Options	Exercise Price From	Exercise Price To
Balance, November 30, 1993	1,076,950	$ .22	$ 3.00
Granted	457,500	$ .67	$ 2.00
Exercised	(300,000)	$ .22	$ 0.25
Expired	(154,450)	$ .25	$ 3.00
Balance, November 30, 1994	**1,080,000**	**$ .67**	**$ 1.50**

Options are exercisable pro rata each year until expiry. Option holders may exercise the options plus any options not exercised in prior years, up to and including the date on which the options expire. The options expire between December 17, 1994 and September 12, 1997.

5. WARRANTS

	Number	Consideration
Issued for cash and balance, November 30, 1993	487,137	$ 4,871
Issued for cash	98,000	980
Balance, November 30, 1994	**585,137**	**$ 5,851**

All outstanding warrants were issued for cash during 1994 and 1993.

Each warrant entitles the holder to acquire one flow-through common share at an exercise

price of $2.40 per share for a period of 1 year from the issue date and thereafter at an exercise price of $3.00 per share until expiry.

The warrants expire between October 29, 1995 to December 30, 1995. At November 30, 1994, no warrants had been exercised.

6. RELATED PARTY TRANSACTIONS

The Corporation paid management fees of $143,525 (1993-$195,000), of which $8,656 (1993-$65,750) is included in property and equipment, to officers or corporations owned by officers. Included in this total is $5,000 (1993-$19,500) paid through the issue of common shares pursuant to the management agreement referred to on Note 4(d).

7. DEFERRED INCOME TAX RECOVERY

The deferred income tax recovery differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate to income before deferred income tax recovery. The computation, which requires adjustment for non-taxable and non-allowable items, is as follows:

	1994	1993
Loss before deferred income tax recovery	**$ (567,057)**	$ (259,242)
Add (deduct)		
Crown royalties and mineral taxes	**211,571**	173,859
Resource allowance	**—**	(64,187)
Other	**133,339**	62,876
Loss for income tax purposes	**$ (222,147)**	$ (86,694)
Canadian Federal and Provincial income taxes (recovery) at 44.34% (44.34% in 1993) applied to loss for income tax purposes	**$ (98,500)**	$ (38,440)

At November 30, 1994, the Corporation has accumulated income tax losses which have not

been reflected in these financial statements. The tax losses carried forward and the years in which they expire are as follows:

1998	$ 51,000
2001	109,000
	$ 160,000

8. EVENTS SUBSEQUENT TO NOVEMBER 30, 1994

On December 17, 1994, 100,000 stock options expired.

On December 31, 1994, the Corporation granted 225,000 stock options to Directors at $.30 per share expiring December 29, 1999.

On December 31, 1994, 18,000 common shares were issued to an employee under the terms of an employment agreement.

On February 8, 1995, the Alberta Stock Exchange conditionally approved the listing of 1,500,000 common shares to be issued to Rhonda Mining Corporation, a major shareholder pursuant to the terms of a private placement. 750,000 shares will be issued to settle a $225,000 liability relating to mining property expenditures. The remaining 750,000 common shares are reserved pursuant to share purchase warrants exercisable at $.40 per share and expiring December 22, 1996.

Subsequent to the year end, a decision was taken by the Directors to transfer the administration of the oil and gas assets of the Corporation to Cord Oil & Gas Management Limited.

Aaron Oil Corporation

Directors
John M. Alston*
Bernard Benning*
Joe Couillard*
Thomas W. Whittingham
* members of the Audit Committee

Officers
John M. Alston, Chairman, President and Chief Executive Officer
Richard D. Carmichael, Vice President Finance and Chief Financial Officer

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Montreal Trust Company
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Bank
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Auditors
Arthur Andersen & Co.
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Calgary, Alberta T2P 0J1

Trading Symbol
AOC
The Alberta Stock Exchange

Kimmswick Diamonds Inc.

Directors
John M. Alston
Peter Gummer

Officers
John M. Alston, President

Corporate Offices

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